

## Exhibit F

# 1 Business Rules

## 1.1 Overview

In order to allow client to trade on margin through the on-line trading system and to provide appropriate credit risk management, the following business rules and calculations apply. Both the business rules and the calculations take into consideration a conservative approach that would attempt to prevent the client from placing themselves and PaineWebber at risk.

## 1.2 Business Rules

- **Equity Securities Only**
  - The first phase of the on-line trading system will only permit trades of equity securities. Mutual funds, TFI, etc. will be incorporated in follow-up releases.
- **On-line trading clients may only trade Type 1 (cash) and Type 2 (margin) activity through on-line system.**
  - All other activity will be prohibited from on-line trading. These include:
    - Type 0 – Personal Security Loan Account (not governed by Reg T)
    - Type 4 – Short Account
    - Type 5 (Fees) and 6 (LOC) – not trading accounts
    - Type 7/9 – Commodities (International and Domestic)
- **Prior to performing any start of day or intra-day calculations, the system must determine if an account is a cash account (Type 1) or a margin account (Type 2).**
  - The account type is determined by the 10<sup>th</sup> position of the Standard Instructions on the “N” page of account inquiry
  - A “0” indicates that the account is a cash account. A “9” indicated that the account is margin account
- **For margin accounts, prior to performing any start of day or intra-day calculations, the system must determine whether or not a security is marginable or non-marginable.**
- **Upon order entry, if an account is Type 2 (margin), all orders should be booked as type 2 activity regardless if the security is marginable or non-marginable. If the account is Type 1 (cash) then the orders should be processed as type 1 activity.**
- **We should no longer take into consideration whether or not the margin agreement is on file for an account. It should be disregarded in any calculation or edit check or wherever it affected an order, account, calculation, etc.**
- **There will be two central calculations to determine funds availability; cash and margin calculations. The margin calculation should include the cash calculation as part of its overall total. When releasing funds to either calculation for sell executions, drops, cancels, busts, etc. money should be credited back to the one of the two calculations depending on what type of account the client is trading.**
- **Upon order entry, a user must respond to a question asking if the order is a result of a recommendation from their PaineWebber FA. If answered “Yes” the order should be processed as solicited. If answered “No” the order should be processed as unsolicited.**
- **In Cash/Margin Account, we will reduce the possibility that a client will owe money through on-line system or trade themselves into a Fed/House Call.**

- **Non-marginable securities are defined with an exchange code of "9" on the security glossary.**
- **Once a buy order has been executed, that security should be considered long in the account for the amount of shares for which the order was placed. The client should then be able to sell that security, on a same-day trade-date basis, up to the total amount of shares.**
- **Day trading**
  - Clients will be permitted to day trade an individual security as long as the appropriate funds and/or buying power are able to cover the purchase of the security and if the security is held long in the account on a trade date basis. If the funds are not available or adequate, the trade will then be blocked.
  - Clients should receive a release of funds on sell order executions.
  - The system should be trade date based.
  - If a client buys a security to generate a new position and the order is executed, the client will be able to sell that security that same day.
- **OTC Buys less than \$5 per share not permitted.**
  - OTC buys less than \$5 per share is a significant credit issue and will be incorporated as a front end and back end edit check.
  - Numerous edit checks will be built into the front end and back end of the on-line trading system. The edit checks will filter out many different trade scenarios that will not be permitted through the on-line trading system.
- **For cash or margin accounts, if the on-line start of day or intraday balance is less than or equal to zero, no buy orders allowed.**
  - The on-line trading system will utilize a start of day and running intraday balance calculation to determine a client's intraday balance.
  - If the balances fall below zero (0), then no purchase orders will be permitted through the on-line trading system.
  - Sell orders will be permitted if the balance is less than or equal to zero if the positions are long in the account. Upon execution there will be a release of funds so that the client may place buy orders.
- **Only broker activity from BOE and DORS must be included in the start of day and intraday on-line balances and positions (prior day and same day activity).**
  - All BOE and DORS broker entered trade activity (buys and sells) will be included in the start of day and intraday running balance and positions. This will include equities and options only.
  - I.E. If a client enters a trade in the morning and a broker enters a trade in the afternoon; the intraday balance will reflect both trades. This applies to a reduction in funds for buys and a release of funds for executed sells and a change in positions, regardless who enters the order – the client via OLT or the FA.
- **Prices to calculate open limits, stops, and stop limits.**
  - For limit orders the calculation should use the limit price entered by the client (buys or sells)
  - For buy stop orders, use the higher of the current market price or the client entered stop price
  - For buy stop limit orders, use the higher of the client entered stop or limit price
- **Cancels (partial, full, cancel/replace), executions, rejects, drops, and busts must be reflected in daily balance and positions for both the FA and client entered orders.**
- **No credit for open sells orders.**
  - The intraday running balance will subtract both open buy orders and executed buy orders. Open sell orders (those orders that have yet to be executed) will not be credited back to either Type 1 or Type 2 running intraday balances. Upon execution, there will be a release of funds and a reduction of positions.
- **Clients will receive credit of funds and subtraction of positions for unsettled sells.**

- **Block entire trade on-line if order exceeds Type 1 (cash) or Type 2 (margin) running balance calculation.**
  - **Clients will not be able to submit a trade if the value of the trade exceeds the intraday calculated balance.**  
**This check will be performed on the front end and will prohibit the client from submitting the trade.**
- **The on-line trading system will not handle real-time pricing of portfolios. Current PaineWebber systems do not handle market fluctuations (i.e. real time pricing) for margin calculations.**
- **Closed-end funds are traded as equities and should be treated as marginable securities. Open-end funds should not be permitted to be traded on-line.**
- **For marginable securities, the system should use the greater of Reg T for equities (50%) or the House Security Maintenance Requirement for that security.**
- **The system should assume 50% for House Excess calculations and will not calculate additional account level requirements or concentrated accounts for this release. This will need to be an enhancement for the next release of on-line trading**

## Calculations

The on-line trading system will reference a start of day calculation of positions and balances for all validated trading clients. The start of day calculation will be based only on Type 1 Cash Accounts and Type 2 Margin Accounts. All other types of accounts will be restricted from on-line trading. Based on this start of day calculation, a running intraday balance for positions and balances will be maintained reflecting all activity.

As mentioned earlier, the intraday balance will reflect all trade activity from both client entered transactions as well as BOE and DORS broker-entered transactions and will need to be continuously updated.

**Important:** At the start of day and for validating each order, the system must first determine which calculation (cash or margin) should be used to determine the funds available for an account. The system should determine whether the account is a cash or margin account based on the 10<sup>th</sup> position of the Standard Instruction Code from the "N" page on Account Inquiry. If the code is "9" then the margin calculation should be used. If it is a "0", then the cash calculation should be used. If the account is a cash account, all orders should be processed as Type 1 (cash) activity.

### 1.2.1 Start of Day Positions

- Net positions based on trade date for account types 1 and 2 but exclude type 0 and 6 (You may want to use the "P" page on Account Inquiry which should net the positions for both long and unsettled positions. Regardless both long and unsettled positions should be included since the calculation will be trade date based.)
- Include all location codes for positions except the following:
  - P/T – Pending Transfer
  - CCT – Transfer
  - P/R – Pending Redemption
  - TDR – Tender
  - ITG – In Transit to Legal
  - LGL - Legal
  - NNT – Transfer
  - WCL – Will Call
- Additionally, sales of long positions in these location codes should be blocked.
- Reduce positions for open sell orders.
- Create a negative position if there are open sell orders against zero long/unsettled positions in the same security.

### 1.2.2 Type 1 - Cash Account Calculations

#### 1.2.2.1 Type 1 - Start-of-Day Calculation (CSOD)

This calculation will be used as a starting point at the beginning of each business day and will be updated throughout that day using the running intra-day calculations. The start-of-day calculation should be trade date based and is calculated as follows:

<b>Trade Date Balance plus</b>
Add All Money Market Funds
Subtract Debit Card Activity
Subtract Encumbered funds
Subtract 100% principal value of Open Buy Orders

The Money Funds are:

Cash Fund	RMA Tax Free Fund (#3)	NY Muni Fund (#6)
RMA Money Market Fund (#1)	IDA Fund (#4)	CA Muni Fund (#7)
RMA Gov't Fund (#2)	Retirement Money Fund (#5)	

### 1.2.2.2 Type 1 - Running Intra-day Positions and Balances

Once the start-of-day balance has been determined, it will be continuously updated throughout the day creating a running intra-day calculation. This intra-day balance will include all activity entered by a client or their broker.

	Order	Cancels/Rejects/Drops	Execution	Execution Busts
Buys	Reduce balance by 100% value of trade. Block order if value is > than Intraday Calculation and return balance to its previous value.	Upon receiving a UR OUT for the cancel orders only: <ul style="list-style-type: none"><li>• <b>Full Cancel:</b> Increase balance by 100% of the value of open shares cancelled.</li><li>• <b>Partial Cancel:</b> Increase balance by 100% of the value of shares cancelled.</li><li>• <b>Cancel/Replace:</b> Increase balance by 100% of the value of open shares cancelled and reduce balance by 100% of value of replacement trade.</li><li>• <b>Rejects:</b> Increase balance by 100% of the value of number of shares rejected.</li><li>• <b>Drops:</b> Increase balance by 100% of the value of number of shares dropped.</li></ul>	<ul style="list-style-type: none"><li>• Increase position by trade's number of shares. These positions are now long positions in which the client would be able to sell same day.</li><li>• Adjust the funds available by recalculating the original order with the executed price.</li></ul>	Reduce positions.
Sells	Reduce position by trade's number of shares. If the client does not hold the securities at all, then the system should block the order. (Clients will be able to sell securities that have not settled yet.)	Upon receiving a UR OUT for the cancel orders only: <ul style="list-style-type: none"><li>• <b>Full Cancel:</b> Increase positions by the number of open shares cancelled.</li><li>• <b>Partial Cancel:</b> Increase positions by number of shares to be canceled.</li><li>• <b>Cancel/Replace:</b> Increase positions by entire number of open shares cancelled and reduce positions by the number or shares for replacement order.</li><li>• <b>Rejects:</b> Increase positions by number of shares rejected.</li><li>• <b>Drops:</b> Increase positions by number of shares dropped.</li></ul>	<ul style="list-style-type: none"><li>• Increase balance by 100% value of trade.</li><li>• Adjust the funds available by recalculating the original order with the executed price.</li></ul>	Reduce balances by 100% of value of the trade.

If the start of day balance is negative then the client will be blocked from sending any buy orders.

After the first trade has been executed, the resulting value of the start of day balance will be the Intraday Balance.

All trades sent after the first order of the day will be compared against this balance.

This balance excludes any transactions that are included in the daily batch cycle, such as: cash withdrawals/deposits, check deposits/withdrawals, transfers between PaineWebber accounts (i.e. GJOWS), etc.

Clients will only be able to purchase securities up to the value of the calculation outlined above. If the order is larger than the balance, the order must be blocked. If the client has fully paid for securities in a Type 1 account, these securities will not count as purchasing power for new buy orders.

Clients will have the ability to day trade. They will be able to buy and sell the same security so long as they have the funds available and they receive the proper executions. For example, a client has sufficient funds and buys IBM. Upon execution the client is able to sell those same shares.

Another example is if a client holds 200 shares IBM long to start the day but does not have any value in his money funds. The client would be blocked if they tried to place a buy order. However, if the client liquidates their IBM positions there will be a release of funds to their balance in the value of that order. The client may now place buy orders up to the value of their new balance.

### 1.2.3 Type 2 - Margin Account Calculations

#### 1.2.3.1 Type 2 - Start-of-Day Calculation (MSOD)

**Important:** Again, at the start of day and for validating each order, the system must first determine which calculation (cash or margin) should be used to determine the funds available for an account. The system should determine whether the account is a cash or margin account based on the 10<sup>th</sup> position of the Standard Instruction Code from the "N" page on Account Inquiry. If the code is "9" then the margin calculation should be used. If it is a "0", then the cash calculation should be used.

Once it is determined that the account is a Type 2 (margin) account, all securities (marginable or non-marginable) should be processed at Type 2 (margin) activity.

The following are the steps and calculations to establish the start-of-day calculation margin calculation:

##### Step 1:

Select the lesser of the SMA or House Excess from the previous night's batch cycle. Once either SMA or HE has been selected, that figure will be used in the following steps. The one not selected does not need to be recalculated for additional balances until the next day, at which point the lesser of the two will be selected.

##### Step 2:

Add the cash balance to the balance selected in Step 1.

Lesser of HE or SMA selected in Step 1 plus:
Add Trade Data Balance
Add All Money Market Funds
Subtract Debit Card Activity
Subtract Encumbered funds

This will become the Start of Day (MSOD) funds available balance for your margin calculation. The cash portion of this calculation (Trade date balance + All MMF - Debit Card Activity - Encumbered Funds) should be the same as the figures in the Type 1 calculation.

##### Step 3:

Adjust the funds available balance for open buy orders. The system must determine whether the security is marginable or non-marginable. This must also be determined prior to calculating each order within a margin account intra-day.

	Non-Marginable Securities	Marginable Securities
MSOD	MSOD - 100% of value of security	MSOD - (Value of the open buy order * the greater of Reg. T for equities (50%) or the House Security Maintenance Requirement)

##### Step 4:

The result of this adjustment is your final Margin Start of Day balance for type 2 accounts.

Clients will only be able to purchase securities up to the value of the calculation outlined above unless this figure is negative. In this situation, all client buy orders should be blocked, unless there is a release of funds through an executed sell.



### 1.2.3.2 Type 2 – Running Intraday Position and Balance Calculations

The intraday running balance will include all client and broker entered orders. The start of day positions and balances will be adjusted throughout the day.

The system must always determine whether a security is marginable or non-marginable before applying the order to the calculations.

If the start of day balance is negative, the system should reject all buy orders for the client unless the client frees up funds by selling a security they hold long on a trade date basis. If this puts the balance at a positive, the client would be able to buy securities in that amount.

For the first order of the day, when adding or subtracting funds, the order should be applied to the single start of day calculation. After the adjustment, each subsequent order will be applied to the new Intraday Calculation.

#### Order

	Marginable	Non-Marginable
Buy	<ul style="list-style-type: none"> <li>Reduce balance by the value of trade X the greater of Reg T for equities (50%) or the House Security Maintenance Requirement.</li> </ul>	<ul style="list-style-type: none"> <li>Reduce balance by 100% value of trade.</li> </ul>
Sell	Reduce positions by trade's number of shares.	

#### Execution

	Marginable	Non-Marginable
Buy	<ul style="list-style-type: none"> <li>Increase positions by trade's number of shares.</li> <li>Adjust the funds available by recalculating the original order with the executed price.</li> </ul>	
Sell	<ul style="list-style-type: none"> <li>Increase margin balance by the value of trade X the greater of Reg T for equities (50%) or the House Security Maintenance Requirement.</li> <li>Adjust the funds available by recalculating the original order with the executed price.</li> </ul>	<ul style="list-style-type: none"> <li>Increase margin balance by 100% value of trade.</li> <li>Adjust the funds available by recalculating the original order with the executed price.</li> </ul>

#### Execution Busts

	Marginable	Non-Marginable
Buy	Reduce positions by trade's number of shares.	
Sell	Reduce margin balance by the value of trade X the greater of Reg T for equities (50%) or the House Security Maintenance Requirement.	Reduce margin balance by 100% value of trade.

**Cancels/Rejects/  
Drops**

	<b>Marginable</b>	<b>Non-Marginable</b>
<b>Buy</b>	<p>Upon receiving a UR OUT for the cancel orders only:</p> <ul style="list-style-type: none"> <li>• <b>Full Cancel:</b> Increase margin balance by the value of trade X the greater of Reg T for equities (50%) or the House Security Maintenance Requirement for the number of open shares cancelled.</li> <li>• <b>Partial Cancel:</b> Increase margin balance by the value of trade X the greater of Reg T for equities (50%) or the House Security Maintenance Requirement of the number of shares canceled.</li> <li>• <b>Cancel/Replace:</b> Increase margin balance by the value of trade X the greater of Reg T for equities (50%) or the House Security Maintenance Requirement of the value of open shares cancelled and reduce balance by value of trade X the greater of Reg T for equities (50%) or the House Security Maintenance Requirement for the replacement order.</li> <li>• <b>Rejects:</b> Increase margin balance by the value of trade X the greater of Reg T for equities (50%) or the House Security Maintenance Requirement for the number of shares rejected.</li> <li>• <b>Drops:</b> Increase margin balance by the value of trade X the greater of Reg T for equities (50%) or the House Security Maintenance Requirement for the number of shares dropped.</li> </ul>	<p>Upon receiving a UR OUT for the cancel orders only:</p> <ul style="list-style-type: none"> <li>• <b>Full Cancel:</b> Increase margin balance by 100% of the value of open shares cancelled.</li> <li>• <b>Partial Cancel:</b> Increase margin balance by 100% of the value of shares canceled.</li> <li>• <b>Cancel/Replace:</b> Increase margin balance by 100% of the value of open shares cancelled and reduce balance by 100% of value of replacement trade.</li> <li>• <b>Rejects:</b> Increase margin balance by 100% of the value of number of shares rejected.</li> <li>• <b>Drops:</b> Increase margin balance by 100% of the value of number of shares dropped.</li> </ul>
<b>Sell</b>	<p>The following applies to marginable and non-marginable securities.</p> <p>Upon receiving a UR OUT for the cancel orders only:</p> <ul style="list-style-type: none"> <li>• <b>Full Cancel:</b> Increase positions by the number of open shares cancelled.</li> <li>• <b>Partial Cancel:</b> Increase positions by number of shares to be canceled.</li> <li>• <b>Cancel/Replace:</b> Increase positions by entire number of open shares cancelled and reduce positions by the number of shares for replacement order.</li> <li>• <b>Rejects:</b> Increase positions by number of shares rejected.</li> <li>• <b>Drops:</b> Increase positions by number of shares dropped.</li> </ul>	

### **Specification Sign-off**

This signature is to denote that you have helped design, read and understood the above requirements. The requirements specify how on-line trading will determine funds available and positions available for clients to trade. The calculations are not meant to completely replicate the existing margin nightly processing. It is meant to help guard against potential exposure and risk on behalf of the client but does not eliminate that risk entirely. All on-line orders will undergo the existing nightly batch processing that occurs for all PaineWebber orders.

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